

15 - FY17 Budget Recommendations - BOR

Monday, February 01, 2016

11:02 AM

SOUTH DAKOTA BOARD OF REGENTS

Full Board

AGENDA ITEM: 2

DATE: December 15, 2015

SUBJECT: Governor's FY17 Budget Recommendations

Governor Dugaard gave his FY17 budget address on December 8, 2015, before the Legislature. FY15 revenues came in better than projected resulting in a year-end positive balance of \$9.9 million. With an increase in ongoing revenues and a reduction of expenses, the total one-time funds available in FY16 total \$60.2 million.

The employee compensation package proposed by the Governor includes a proposed 2.7% cost-of-living increase and 2.5% movement to midpoint for all eligible state employees. The health insurance savings for FY17 is approximately \$275 per benefit eligible employee, which is the result in a decrease in the employer paid portion of the state employee health plan. Therefore, the Board of Regents will realize a decrease in general funds appropriated to employee compensation of about \$700,000, which will be accounted for as part of the overall compensation package.

One-Time Funding

The Governor is proposing one-time funds in the amount of \$35.5 million to pay off two BOR bonds in full, resulting in \$2.9 million in on-going savings which will be used to support a tuition freeze for resident on-campus students. Additionally, the Governor is proposing one-time funds of \$2.1 million to increase the Need-Based Scholarship Endowment.

<u>One-Time Funding</u>	<u>Requested</u>	<u>Recommended</u>
Need-Based Scholarships	\$3,000,000 (base)	\$2,100,000 (one-time)
Bond Debt Payment	\$0	<u>\$35,505,414</u> (one-time)
	\$3,000,000	\$37,605,414

- The Governor is also recommending that BOR deposit \$1.4M in the endowment from FY16 health savings from tuition and fee funds.
- Also proposed is a one-time non-general fund special appropriation of \$1,575,000 for the Animal Disease Research and Diagnostic Laboratory Design Study.

(Continued)

RECOMMENDED ACTION OF THE EXECUTIVE DIRECTOR

Information and discussion.

Base General Funding

The Governor is proposing an increase of \$5,104,509 in base general funds for FY17 for Higher Education Facility Funds (HEFF), South Dakota Opportunity Scholarship (SDOS) funds, National Guard Tuition Support, the Center for the Prevention of Child Maltreatment, and the REED Network Equipment Replacement funds. The details for each are found in Attachment I.

<u>General Funds Base</u>	<u>Requested</u>	<u>Recommended</u>
State HEFF Match	\$2,428,335	\$3,274,464
Utilities Base	\$89,272	(\$2,019)
Opportunity Scholarship	\$350,000	\$434,369
Tuition Freeze	\$4,256,019	\$324,020
National Guard and State Employee Tuition Support	\$390,054	\$390,054
Center for the Prevention of Child Maltreatment	\$210,725	\$210,725
Reed Network Equipment	\$1,254,600	\$250,920
Lease Payment Adjustment	\$0	(\$8,122)
	<u>\$8,979,005</u>	<u>\$4,874,411</u>

The recommendation to support the National Guard and state employee tuition support relates to our request to roll the university support fee (USF) into tuition. This will require changes to the HEFF statute such that the campuses will not lose 20% of their USF money to HEFF. We will be proposing a change to HEFF in the 12-13% range and will be looking at a realignment of funds to make the change. Legislation will need to be submitted to support this change.

The Governor's recommendations result in a 2.5% increase in base general funding not including the ongoing savings from the bond payoff. When we include the \$2.9 million in ongoing savings from the bond payoff, we have an increase in the general fund base of 4.0%.

Salary policy details have not been finalized and are not included in the above calculations but when added to our general fund base will likely result in an additional \$2.5 to \$3.0 million increase. This would equate to about a 1.5% increase in our general fund base budget.



Governor's Recommended Budget FY2017

1. State HEFF Match – Year 4 of 4 (Base)

Requested the final year of the four-year general fund M&R Plan.

Requested: \$2,428,335

Recommended: \$3,274,464. The amount was increased to allow HEFF to increase by inflation despite the tuition freeze.

2. Utilities (Base)

The utility increase was based on preliminary projections based on Energy Cap data reported by the campuses.

Requested: \$89,272

Recommended: (\$2,019). The reduction is based on the most recent energy costs and Energy Cap data.

3. SD Opportunity Scholarship (SDOS) Funding (Base)

Additional funding is needed to support the anticipated participation in SDOS and to fund the second class of students at \$6,500.

Requested: \$350,000

Recommended: \$434,369. The amount was increased based on the October projections using the fall 2015 participation numbers.

4. Affordability – Tuition Freeze for Resident Students (Base)

The original proposal from the BOR was to freeze tuition and mandatory fees for resident on-campus students by increasing state funding to cover a portion of salary and benefits including inflation normally covered by this revenue source. The Board's proposal included a 3% salary package and a 1% salary enhancement.

Requested: \$4,256,019

Recommended: \$324,020 in general funds base increase and \$35,505,414 of one-time funds to pay off South Dakota Building Authority bonds. Due to this early payoff, the savings of \$2,904,690 will be redirected to fund the tuition freeze. The Governor's recommendation includes a 2.7% salary policy, 0.5% salary enhancement, and 0.7% for operating expense inflation and a health insurance cost decrease. The proposal includes one-time funds of \$35.5 million to pay off two South Dakota Building Authority bond series – Series 2008B Science Lab Bonds and Series 2008 A-3 HEFF bonds. This payoff will free up local funds normally used to make those payments. The funds will be redirected to pay for the tuition freeze. This will require a realignment of funds between the universities.



Governor's Recommended Budget FY2017

5. Need-Based Scholarship Funding (Base)

The original BOR budget request was for the first year of a three-year plan to bring South Dakota to the regional assistance average for PELL eligible students. The request was for \$3 million in ongoing funding for Need-Based Scholarships.

Requested: \$3,000,000 in on-going funding

Recommended: \$2,100,000 in one-time general funds and \$1,400,000 of FY16 other funds health insurance savings to be transferred to the endowment. The total increase of \$3.5 million in one-time funds brings the Need-Based Scholarship Endowment to \$5 million.

6. National Guard and State Employee Tuition Support (Base)

The BOR proposed to roll USF into tuition for all students resulting in simplified tuition and maximizing the benefit to National Guard soldiers, state employees and teachers.

Requested: \$390,054

Recommended: \$620,152, which includes the BOR requested amount and a base funding transfer from Department of the Military (DOM) of \$230,098. The transfer of base funding from DOM will likely require legislation changes to eliminate the requirement to bill the Department of the Military for reimbursement.

7. Center for the Prevention of Child Maltreatment (Base)

BOR's proposal would put into place the necessary support and education infrastructure through USD to address child maltreatment in SD, in support of the direction outlined by Jolene's Law Task Force.

Requested: \$210,725

Recommended: \$210,725 - to be reevaluated at the end of 5 years.

8. REED Network Equipment Replacement (Base)

BOR requested base funding to replace routers now and in the future.

Requested: \$1,254,600 of one-time funding

Recommended: \$250,920 base funds to provide on-going replacement using 5 year replacement schedule.

9. Lease Payment Adjustments (Base)

Our lease payments funded with general funds and reimbursed with student fee money fluctuate each year. This aligns general funds with the actual lease payment for FY17.

Requested: \$0



Governor's Recommended Budget FY2017

Recommended: (\$8,122)

10. FTE and Expenditure Authority (Base)

Increases or decreases are requested based on campus needs for on-going support or grant activity changes.

Requested: USD requested 20.0 additional FTE and BHSU requested a reduction of \$2,000,000 in federal authority.

Recommended: Governor recommended reductions in FTE and expenditure authority based on history.

Federal Funds: (\$18,350,000)

Other Funds: (\$4,750,000)

FTE: (23.0)

Budget Items Requested but not Recommended

11. Student Preparation in Math Initiative (Base)

Proposed funding would have provided financial resources to improve student preparation and competency in mathematics.

Requested: \$2,000,000 and 15.0 FTE

Recommended: \$0

12. American Indian Education and Outreach (Base)

BOR proposed funding a central office position to serve as a liaison to high schools and college-bound American Indian students and their families.

Requested: \$75,332 and 1.0 FTE

Recommended: \$0

13. Support for Commercialization Activities (Base)

BOR proposed operations support that would directly benefit the affiliated research parks at SDSU and USD in support of efforts to promote commercialization activities.

Requested: \$600,000

Recommended: \$0

**Governor's Recommended Budget FY2017****14. Small School Initiative (Base)**

This proposal was to provide additional resources for BHSU, NSU and DSU to support investments in new priorities.

Requested: \$534,025

Recommended: \$0

15. Research Equipment (One-time)

BOR requested one-time funds for campuses to purchase critical research equipment to be used to facilitate research and development activities in the five industry sectors established in the 2020 Vision.

Requested: \$2,000,000

Recommended: \$0

16. Industry Sponsored Research Fund (One-time)

BOR requested one-time funding to be used to grow collaborative ventures in research between our universities and the private sector.

Requested: \$1,000,000

Recommended: \$0

17. Capital Project Matching Fund (One-time)

BOR requested one-time funding with a 4 to 1 match to be used for capital projects that align with state priorities.

Requested: \$10,000,000

Recommended: \$0